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The big players and
what they want

AGED CARE LOANS

Finance for the golden years

Funding extra care in old age can often be a stressful and emotional experience for the borrower.

MPA explores La Trobe Financial's aged care loan and hears from two specialist brokers in the space

IF YOU'RE well into your twilight years and find yourself, either suddenly or gradually, needing the services of aged care, finding the finance to pay for it can be a daunting prospect, not only for the borrower but their family too. This is where the aged care loan can make a world of difference and is what some brokers have crafted their entire business around. *MPA* explores aged care finance with La Trobe Financial and two brokers specialising in the space.

Finding finance in old age

"Australians are witnessing the beginning of a demographic wave that will drive demand for aged care loans for decades ahead," says Martin Barry, head of aged care products at La Trobe Financial. "ABS figures show that the number of people aged 85 and over has increased by 153% over the last two decades. This trend is only going to accelerate, with the baby boomer cohort starting retirement age in 2011 and the aged-85-plus cohort doubling by 2030."

A population that is only getting older will inevitably increase demand for aged care, Barry says, which is good news for brokers in the aged care space. And aged care loans can sometimes be needed at very short notice.

"Currently, prospective residents must pay a lump sum RAD (refundable accommodation deposit) or a DAP (daily accommodation payment). Both can be significant, with RADs in major cities frequently over \$500,000," says Barry. "What's more, the trigger for a move to aged care is frequently an accident or sudden decline in health, meaning that decisions must be made and funds sourced at short notice over a period of a few months."

He expects the RAD amount will only get larger as lack of supply fuels competition. "So the role for a trusted adviser to finance this large expense is a real win-win for clients and brokers," says Barry. "A targeted aged care finance product that can fund a RAD or



other transitional costs has an important role to play. With around \$20bn held in RADs at present and an annual demand of circa \$3bn and growing, financing demand is only going to increase in the years ahead."

Marguerite Taylor is the director of Aged Care Finance Solutions and has worked in seniors finance for 11 years. Although experienced in residential and commercial broking, she now specialises solely in aged care loans and reverse mortgages. She points out some key differences between an aged care loan

AN AGEING AUSTRALIA



7.8% of the Australian population aged 65 and over (270,559 people) were in residential aged care over the 2013/14 financial year



Average age for women was **85.8** versus **81.6** for men

Of those in aged care:

- **1 in 100** identified as Indigenous
- **2 in 3** were women
- **3 in 10** were born overseas

Source: Australian Institute of Health and Welfare; AIHW 2016. Residential aged care and Home Care 2014–15

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and a reverse mortgage. Reverse mortgages are for an owner-occupier, with the loan term ending when the last borrower has left the home for good; there is one loan repayment at the end of the term, and the clients are generally very active, she says, and excited about their retirement stage of life.

Aged care loans, in contrast, are for when the borrower has left the home to move into aged care, and loan terms are between three, five and seven years, she explains, as often people do not live for more than two years in an aged care facility. The client is often a family member and has power of attorney, because the borrower is usually well into their old age. The RAD will be refunded to the family estate if the person leaves aged care or passes away.

A special kind of broker

Darren Moffatt, founder and managing director of award-winning Seniors First, has almost two decades of lending experience. Aged care finance involves dealing with vulnerable people and hence is not for everyone, and Moffatt says

brokers need to ask themselves if they are the right fit for the market.

“The aged care/seniors market is not where you’re going to make a fast buck,” he says. “The seniors in the aged care market require a lot of care; you’ve got to be really hands-on with the clients and emotionally invested.” He says patience is vital but there are rewards too.

“It’s very much a feel-good market. Because you’re dealing with seniors and the elderly, if you get a good result you get the finance, and the transaction means that someone is moving into the nursing home that they really wanted to get into but thought was, for instance, unattainable – well, that’s a great outcome.” There is a sense of satisfaction when a resident goes into care and is happy, which then leads to happiness in their children and their family. “If you’re the type of broker that likes to use your skills to give back to the community a bit, then this might be a good market to get into.”

Taylor says enjoying the aged care world is crucial to making it work as a broker. “You’re dealing with families that are very distressed

MESSAGE FROM OUR SPONSOR

Moving a loved one into an aged care facility can often be a traumatic experience. The financial side of this can add even more stress, with pressure to find significant funding in a short space of time. Often a Refundable Accommodation Deposit is required and this can commonly exceed \$500,000. How to fund this payment is a complex problem for many families. La Trobe Financial offers a loan that can be used specifically to make this payment, reducing the stress for families at a very emotional time. Our experienced team has developed a product that is easy for the client and their family to set up, making the transition to aged care less complicated.

Martin Barry,

Senior vice president,
head of aged care
products,
La Trobe Financial








AGED CARE LOANS

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BENEFITS OF AGED CARE LOANS

The aged care loan can provide a number of emotional and financial benefits for the borrower and their family too, including:

-  Ability to hold on to the family home
-  Ability to rent out the property and deduct loan interest
-  No fire sale of the property needed
-  Reducing family complexity in terms of who pays for care
-  No need to provide guarantees to the aged care facility

Source: La Trobe Financial Services

– when someone is moving into aged care they are at the end of their life – so it's quite a sad time for them. So you're dealing with all sorts of emotions going on, as well as making very complicated financial agreements ... and you spend a lot of hours with those people helping them. But you get a lot of satisfaction from it because they are just so grateful for the help."

Aged care loans are a niche within a niche,

is often their children, Barry says a broker's existing client base is a great place to look for opportunities.

"Very commonly, the children are actually the key decision-makers for their parents, and brokers are ideally positioned to be the children's trusted advisers. This intergenerational strategy is critical.

"In short, brokers' existing clients are likely



"You're not just dealing with your National Consumer Credit Protection Act ... you're also dealing with the Aged Care Act as well"

Marguerite Taylor, Aged Care Finance Solutions

explains Moffatt, and are likely suited to the more established broker that has a greater affinity with the age group. "Often it's the broker's experience of aged care first-hand through family that will get them involved in this space," he says.

Taylor adds that brokers need to be aware that it is a heavily regulated area too. "You're not just dealing with your National Consumer Credit Protection Act in that case; you're also dealing with the Aged Care Act as well, so it's a whole different area of legislation."

Aged care focus

If the aged care market sounds like it might suit you, and finding clients is on your mind, Moffatt recommends keeping it local first. "If you're going to get into aged care loans as a focus, you need to build relationships with aged care facilities, nursing homes, and in particular what they call the DOMs [directors of nursing] – they usually control the admissions process, and/or the financial controller of the aged care facility."

Also, because those requiring aged care usually need someone with power of attorney to deal with the loan process, which

to be the actual decision-makers, so education and awareness amongst existing borrower clients is key."

Barry says La Trobe's product is a straightforward one that allows the customer to borrow up to 50% of their property value over a seven-year term, which they can repay any time.

"Interest can accrue on the loan or be paid, and the current interest rate is 5.6% per annum, which is less than the government-mandated interest rate known as the Maximum Permissible Interest Rate. The security pledged for the loan is the applicant's residential property and the Refundable Accommodation Deposit," he explains.

La Trobe Financial's Aged Care Loan can also be helpful if used as a form of bridging finance so that a property can be sold at a later date. In the long term, he says, "keeping the property and using finance to pay for aged care entry can improve pension and means-tested care fee outcomes, so it's important to consider this. We have recently developed a cash flow scenario comparison tool comparing a property sale against keeping the property using an aged care loan, and this is freely available to brokers and their clients". **MPA**